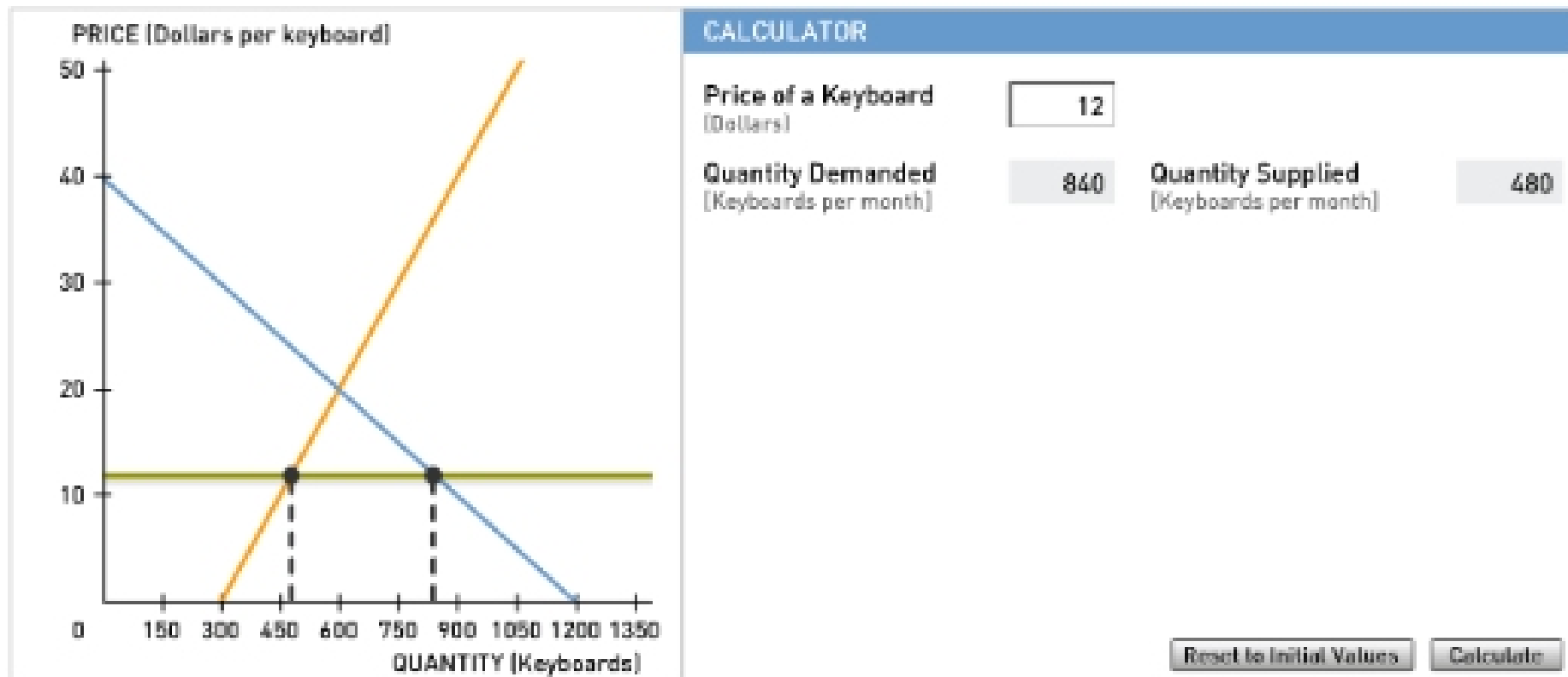


10. Market equilibrium and disequilibrium

The following calculator depicts the market for computer keyboards. The downward-sloping (blue) line represents demand, and the upward-sloping (orange) line represents supply. You can enter a price (in dollars) into the Price of a Keyboard box to see the quantity demanded and quantity supplied at that price. Use the calculator to help you answer the following questions. You will not be graded on any changes you make to the calculator.

Tool tip: Use your mouse to drag the green line on the graph. The values in the boxes on the right side of the calculator will change accordingly. You can also directly change the values in the boxes with the white background by clicking in the box and typing. When you click the Calculate button, the graph and any related values will change accordingly.



The equilibrium price of a keyboard in this market is \$20 ✓ per keyboard, and the equilibrium quantity is 600 ✓ keyboards bought and sold per month.

Explanation:

Close ^

The equilibrium price in this market is the price at which quantity demanded equals quantity supplied. By moving the green price line up and down on the graph, you can see that quantity supplied and quantity demanded are both 600 keyboards per month when the price is \$20; hence, that price–quantity combination constitutes equilibrium in this market.

Suppose the price of a keyboard is \$25. In this case, there would be a surplus ✓ of 225 ✓ keyboards per month, which would exert downward ✓ pressure on prices.

Now, suppose that the price of a keyboard is \$12. In this case, there would be a shortage ✓ of 360 ✓ keyboards per month, which would exert upward ✓ pressure on prices.

Explanation:

Close ^

At a price of \$12, consumers demand 840 keyboards per month, and producers supply 480 keyboards per month. The quantity demanded exceeds the quantity supplied by $840 - 480 = 360$ keyboards per month. Because consumers want to buy more keyboards than producers are willing to sell at that price, a shortage will ensue. Either producers will realize that they can raise their prices and still sell out their entire inventory, or buyers will offer more than the prevailing price. Therefore, the shortage will cause the price of a keyboard to rise.

At a price of \$25, consumers demand 450 keyboards per month, and producers supply 675 keyboards per month. The quantity supplied exceeds the quantity demanded by $675 - 450 = 225$ keyboards per month. Because producers want to sell more keyboards than consumers are willing to buy at that price, a surplus exists. Producers will start dropping prices to sell off their residual inventory. Therefore, the surplus will cause the price of a keyboard to fall.

QNA 3.14 © 2004-2013 Aplia. All rights reserved.
Calculator 2.15 © 2002-2013 Aplia. All rights reserved.
© 2013 Cengage Learning except as noted. All rights reserved.

Points: 4 8 8  Average: 6.67 / 8

Try Another Version

Continue